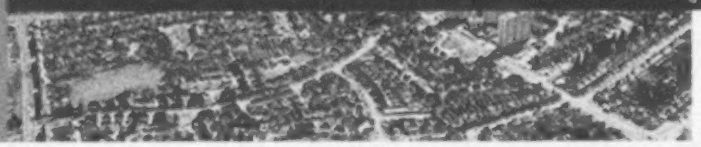
HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Edmonton CMA



Canada Mortgage and Housing Corporation

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NEW HOME MARKET

Total Housing Starts Decline in 2008 and 2009

New housing activity has weakened substantially across Greater Edmonton in 2008 and CMHC does not expect any improvement overall in the coming year. This comes despite a strong local economy that is showing impressive employment and income growth. The home building industry has been held back by a slowdown in net migration into the province since mid-2007 and concerns locally about elevated new and existing home inventories. To the end of August, housing starts were half the volumes achieved in the first eight months of 2007. Look for total starts this year of close to 6,500 units, representing a 56 per cent decline from production levels achieved in 2007. Total starts in 2009 will be reduced by another eight per cent, with improvements in single-detached activity countered by a weaker year for multi-family construction.

Figure 1

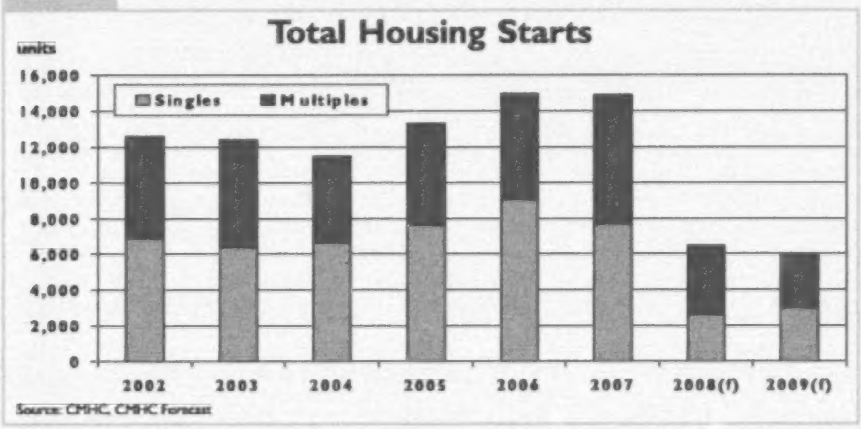

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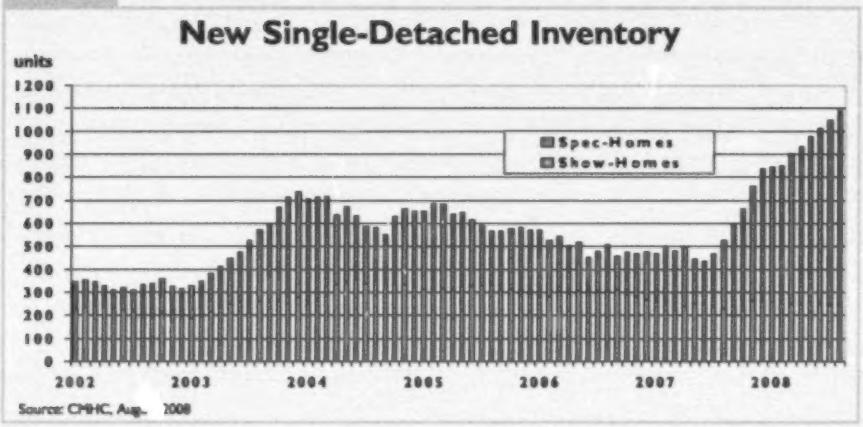
Figure 2



Single-Detached Builders Experience Moderate Rebound

Following a 15 per cent decline in 2007 from the record performance in 2006, single-detached starts in the Edmonton CMA are expected to decrease 66 per cent this year to 2,600 units. As the inventory adjustment process begins to unwind, production should improve in 2009 to 3,000 units for a gain of 15 per cent. While this outlook presents a positive rebound relative to 2008, these volumes are well below the 6,142 units started on average during the 10-year period of 1998 through 2007.

As of August, the Edmonton region had witnessed 14 consecutive months of rising inventories of new single-detached homes. The stock of completed and unoccupied singles including show homes stood at a record 1,090 units in August, up 107 per cent from the same month in 2007. However, with units under construction down by over 56 per cent year-over-year, total supply stood at 3,958 units in August; a 44 per cent reduction from the same time last year. If we consider that on average 563 single-detached units have been absorbed each month this year, the current supply (units under construction plus inventory) would last only seven months. This represents close to a balanced market considering the time required to build a house in Edmonton. With inventory numbers poised to head lower during the months ahead, the table is set for a modest recovery in single-detached starts that will gain momentum as 2009 progresses. Softer new home prices and lower mortgage rates will also help uphold demand. An uncertainty in this outlook will be resale inventory, which turned the corner in the second quarter but remained high by historic standards in August. An unanticipated increase of single-detached listings in the spring of 2009 will delay the recovery in new house production.

New House Prices Remain on Upswing

Prices for new single-detached homes, as measured in CMHC's market absorption survey, continued to rise this year despite the record high number of unsold new units. As shown in Table 1, the average price for the units absorbed between January and August this year reached $498,961, up 19 per cent over the $418,954 average recorded in the first eight months of 2007. Readers should be mindful that in many cases the prices of these units were negotiated before construction began.

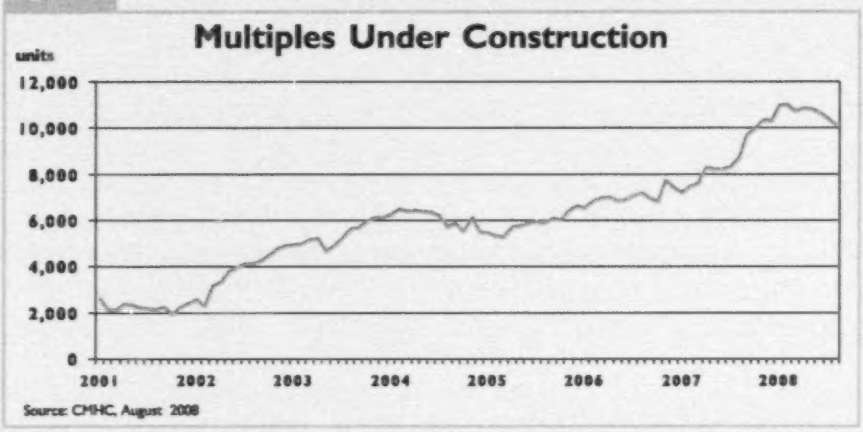
Table 1
New Single-Detached Absorptions by Area
January - August (% chg 2007/2008)

	Absorptions			Average Price ($)		
	2007	2008	%chg	2007	2008	%chg
North Central	46	56	21.7	525,778	549,432	4.5
Northeast	488	254	-48.0	361,069	452,043	25.2
Northwest	343	396	15.5	391,203	452,604	15.7
South Central	31	33	6.5	590,548	787,561	33.4
Southeast	497	472	-5.0	469,475	463,786	-1.2
Southwest	941	742	-21.1	408,847	567,667	38.8
West	437	352	-19.5	436,239	548,017	25.6
Total Edmonton City	**2,783**	**2,305**	**-17.2**	**417,353**	**513,516**	**23.0**
Fort Saskatchewan City	112	154	37.5	474,421	490,366	8.2
Leduc City	189	277	46.6	358,813	453,118	26.3
Parkland County	187	151	-19.3	351,352	467,260	33.0
Spruce Grove City	291	324	11.3	275,823	379,271	37.5
St. Albert City	176	161	-8.5	623,854	646,036	3.6
Stony Plain Town	116	120	3.4	301,822	340,345	12.8
Strathcona County	461	440	-4.6	536,861	600,814	11.9
Total Rural Municipalities	**2,090**	**2,240**	**7.2**	**421,084**	**483,765**	**14.9**
Grand Total	**4,873**	**4,509**	**-7.5**	**418,954**	**498,961**	**19.1**

Source: CMHC

Look for the growth rate of absorbed home prices to moderate in the coming months to reflect recent softening in sale prices. Statistics Canada's New House Price Index (NHPI) is forecasted by CMHC to grow this year by less than two per cent and this slowdown will be captured in CMHC's market absorption survey during much of 2009 when buyers take possession of homes that were priced this fall. Following a 16 per cent increase this year, the average absorbed single-detached price is expected to increase in 2009 by only one per cent to $515,000.

Figure 3



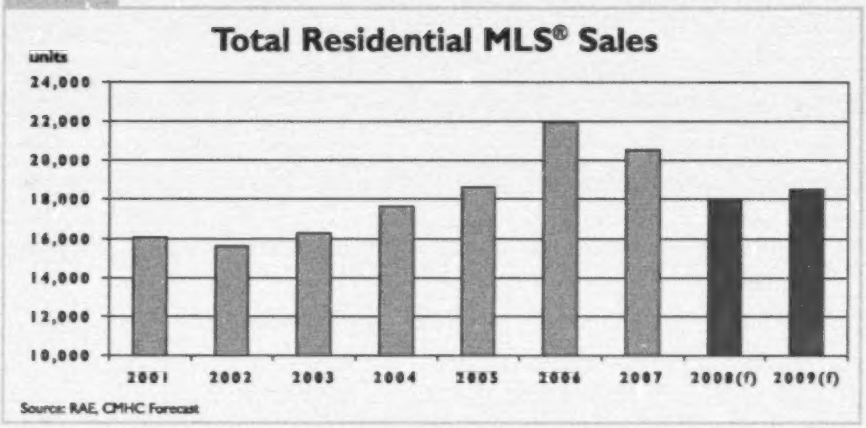
Multiple Dwelling Starts Ease in 2009 over Inventory Concerns

Multiple unit starts will decrease by 46 per cent this year across Metro amid concerns about a looming oversupply of new condo apartments. Last year, multiple starts hit a 25 year high, spawned by accelerating resale market conditions in the previous year coupled with low vacancies in the rental market and strong increases in rental rates. While the lion's share of units started in 2007 were destined for the condo apartment market, many were purchased by investors intent on a either a quick flip or a longer-term hold as a revenue property. While construction activity has cooled in the first eight months of 2008, the high volume of units still in progress suggests that further reductions are warranted in the coming year. Expect multiple dwelling starts to be reduced by another 23 per cent in 2009 to 3,000 units.

Condominiums remain the dominant intended market for new multi-family in the Edmonton region. After eight months this year, condo starts represented 80 per cent of total multi-family starts. Of these, the lion's share have been apartment starts with semi-detached and row units accounting for just over 20 per cent of the condo units started in 2008. With over 7,250 condo apartments under construction in August, plus another 94 units in inventory, this represents 34 months of supply if we use the 213 units per month absorption rate witnessed on average in the first eight months of 2008. With condo apartment completions expected to rise in the months ahead and the resale market currently favoring buyers, developers will face growing difficulties achieving the presales required to get new projects financed and underway. As such, it will be the condo apartment component of multiple starts that will experience the biggest downturn in 2009, with other segments such as semi-detached and townhouse condos along with rental and life lease apartments providing a bigger share of next year's production.

Multiple unit rental starts have totaled only 49 units during the first eight months of 2008 compared with a total of 393 multi rental starts in all of 2007. While some improvements are anticipated in 2009 as builders shift from condo to other tenures, the overall numbers will remain low by historical standards. Construction costs have been rising rapidly and this will hamper the viability of new rental projects. The Statistics Canada Apartment Construction Price Index reported in the second quarter of 2008 was 37 per cent higher than the level reported during the same time in 2006.

Figure 4



RESALE MARKET

Existing Home Sales Improve in 2009

Existing home sales across Greater Edmonton will fall by 12.4 per cent this year but should post a moderate rebound in 2009. A relatively strong economy, lower mortgage rates, solid wage gains and the absence of further price declines will underpin a modest recovery next year. Residential sales reported on the MLS® by the Realtors Association of Edmonton (RAE) will reach 18,000 units in 2008, improving by almost three per cent to 18,500 sales in 2009. Next year will represent the fourth best year on record with sales approaching the levels reported in 2005 but remaining well below the 21,200+ units sold annually on average during the peak years of 2006 and 2007.

After a relatively soft first half, the resale market showed signs of firming in the third quarter. Total sales during July and August were up by 16 per cent year-over-year following a 28 per cent decline during the first two quarters. Meanwhile, residential active listings turned the corner in May and have been decreasing on a seasonally-adjusted basis in recent months due to improved sales and fewer new listings. However, supply still remained high this summer by historic standards. Vendors will continue to face a very competitive environment over the duration of the year but should anticipate a gradual improvement in market balance going forward in 2009.

The MLS® sales-to-active-listings ratio (SALR) is a useful measure of the supply-demand relationship in the existing home market. To the end of August, the SALR has averaged close to 16.5 per cent this year, a level typically associated with a buyer's market. With market conditions favoring buyers so far this year, price change has been slightly negative on a seasonally-adjusted month-over-month basis. The average residential resale price for the first eight months of the year, at $337,339, was largely unchanged from the same time frame in 2007. However, part of this can be explained by the shift in the sales mix, with fewer condos selling this year relative to single-detached units which tend to sell at a higher price on average. On an annual average basis, CMHC is forecasting a 1.2 per cent decline in the average resale home price in 2008 to $334,000.

CMHC expects the current buyer's market to give way to more balanced conditions next year as fewer listings enter the market and sales experience a moderate improvement. This assumes that price stability encourages buyer confidence and active

Figure 5

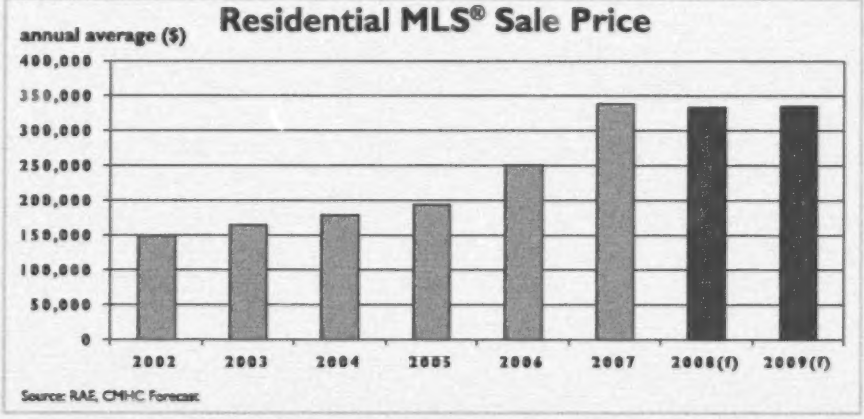


Table 2
MLS® Sales - Single-Detached Units
January - August (% chg 2007/2008)

	Sales			Average Price ($)		
	2007	2008	%chg	2007	2008	%chg
Northwest	304	265	-12.8	360,298	339,120	-5.9
North Central	1,272	1,111	-12.7	399,536	367,988	-7.9
Northeast	409	313	-23.5	334,925	313,182	-6.5
Central	376	226	-39.9	279,485	275,643	-1.4
West	773	792	2.5	488,025	430,939	-11.7
Southwest	1,084	1,118	3.1	528,049	476,508	-9.8
Southeast	1,304	1,163	-10.8	403,112	366,346	-9.1
St. Albert	624	577	-7.5	487,029	445,946	-8.4
Sherwood Park	586	678	15.7	466,456	430,920	-7.6
Leduc	244	234	-4.1	376,992	352,014	-6.6
Spruce Grove	252	319	26.6	386,618	370,237	-4.2
Stony Plain	148	130	-12.2	383,348	374,685	-2.3
Ft. Saskatchewan	171	189	10.5	410,442	389,878	-5.0
All EREB areas	**9,058**	**8,355**	**-7.8**	**403,658**	**381,137**	**-5.6**

Source: Realtors Assoc. of Edmonton

listings average below the volumes seen during 2008. As the SALR moves above the 20 per cent range into more balanced territory next spring, this will allow the annual average residential resale price to stabilize in 2009 near $335,000. Overall, we expect the single-detached market to become more balanced sooner than the condo market since new unit completions will be lower for singles next year relative to condo completions foreseen over the same period.

Costs of Home Ownership Slip Lower

Declining mortgage rates combined with weaker price gains this year have helped to ease affordability constraints across the region. In 2006 and 2007, the monthly mortgage payment that came with buying an average MLS® home increased by over 35 per cent each year due to higher mortgage rates and accelerating home prices. This year, the average monthly mortgage payment of purchasing a typical resale home will decline by 1.9 per cent from the $2,134 per month required to service the debt on the average home in 2007 with a 10 per cent down payment, 25-year amortization on a five-year term mortgage. In 2009, a further decrease in mortgage rates will counter a slight up-tick in sale prices, allowing the monthly mortgage payment of the average resale home to fall by 2.6 per cent from this year. Considering that average weekly earnings are on track for six per cent increase this year, these improvements in affordability should buttress demand going forward.

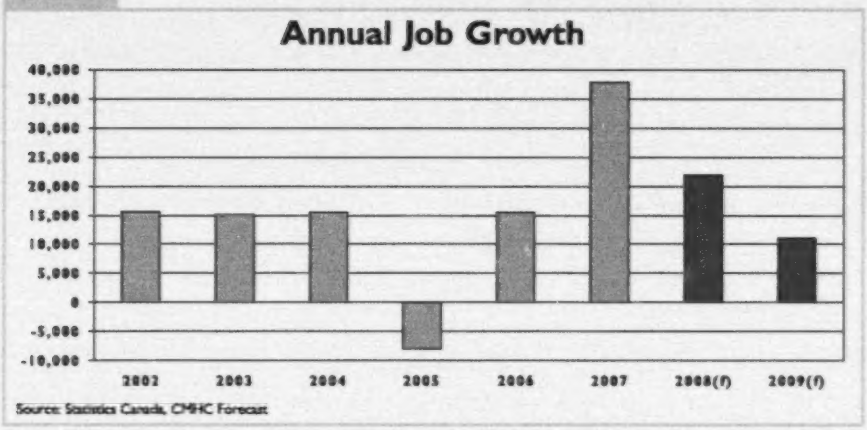
RENTAL MARKET

Higher Vacancies Help Moderate Rent Increases

Apartment vacancies across Metro Edmonton have increased in 2008 despite continued low levels of rental unit construction. The apartment vacancy rate across Metropolitan Edmonton increased from an average of 1.1 per cent in April 2007 to 3.4 per cent this April. Demand has been constrained by lower net migration coupled with strong increases in rent levels and continued albeit slower movement to home ownership. Supply has been bolstered by high levels of condominium apartment construction, many of which have been purchased by investors and injected into the rental pool. This October, CMHC expects an apartment vacancy rate of 3.0 per cent compared with a 1.5 per cent vacancy rate in October 2007. With condo apartment completions poised to increase in the coming months, we anticipate a rental apartment vacancy rate of close to 4.0 per cent in October 2009.

Figure 6

Figure 7



Rising vacancy rates will help prevent the strong rent increases that tenants faced in 2006 and 2007. Following a $150 per month annual increase in October 2007, the average rent for a two-bedroom unit will reach $1,020 this October, up $62 year-over-year. Landlords with units in the upper rent ranges are experiencing stronger competition from investor-owned condos and are lowering rents in some cases in order to reduce turn-over. Properties renting for under $1,000 per month face less competition from condos and rental houses and, as such, have some opportunity to increase rents moderately. By October 2009, a typical two-bedroom apartment will rent for close to $1,050 across Greater Edmonton, representing an average increase of $30 per month.

ECONOMIC OVERVIEW

Economic Growth Slows But Outlook Remains Positive

The economic outlook for the Capital region remains positive in the fall of 2008 despite the global instability that has impacted financial markets and the resulting credit tightening that has taken hold across North America. While commodity prices such as oil and natural gas have been weakening during the late summer, they remain relatively high by historic standards. The energy sector in general will underpin economic growth across the province going forward. Investment in oil sands developments and energy-related exports will support growth in 2009, as will government expenditures on infrastructure and capital spending. While consumers have taken a pause in 2008 in terms of slower retail sales, these too are forecast to experience some improvements thanks to continued wage gains and the removal of provincial health care premiums. The continued weak performance of the new housing sector will however remain a drag on durable goods purchases.

The economy of Greater Edmonton continues to benefit from a large proportion of the energy sector capital projects planned to get underway over the next two years due to its status as the industry's foremost supply, service and staging

area for Alberta. Permit data from the City of Edmonton to the end of August show strong gains in non-residential construction have compensated for this year's reductions in new housing. With public-sector employment playing a large role in Edmonton, the province's strong fiscal position, thanks to energy royalties, will shore-up consumer sentiment in the coming year. Employment growth has been exceptional in the past two years and this will help to support housing demand going forward despite an expected slowdown in job growth in 2009. Net migration into the Edmonton CMA both this year and in 2009 will be well below the peak years of 2005-2006 but will nonetheless compare favourably with the average witnessed over the previous decade. Unemployment will remain amongst the lowest of all major Canadian cities and this will encourage continued in-migration but will also represent a challenge in terms of growing the labour force and containing wage costs for industry.

MORTGAGE RATES

Mortgage rates are expected to be relatively stable throughout the last quarter of this year, remaining within 25-50 basis points of their current levels. Posted mortgage rates will decrease slightly in the first half of 2009 as the cost of credit to financial institutions eases. Rising bond yields, however, will nudge mortgage rates marginally higher in the latter half 2009. For the last quarter of 2008 and in 2009, the one year posted mortgage rate will be in the 6.00-6.75 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.50-7.25 per cent range.

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Forcast Summary Edmonton CMA Fall 2008							
	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	18,634	21,984	20,427	18,000	-11.9	18,500	2.8
MLS® New Listings	25,820	25,393	40,708	40,000	-1.7	32,500	-18.8
MLS® Average Price ($)	193,934	250,915	338,636	334,000	-1.4	335,000	0.3
New Home Market							
Starts:							
Single-Detached	7,623	9,064	7,682	2,600	-66.2	3,000	15.4
Multiples	5,671	5,906	7,206	3,900	-45.9	3,000	-23.1
Starts - Total	13,294	14,970	14,888	6,500	-56.3	6,000	-7.7
Average Price ($):							
Single-Detached	268,252	308,726	438,866	510,000	16.2	515,000	1.0
Median Price ($):							
Single-Detached	248,300	282,500	409,900	467,500	14.1	478,000	2.2
New Housing Price Index (% chg.)	6.5	28.9	32.1	1.8	-	0.5	-
Rental Market							
October Vacancy Rate (%)	4.5	1.2	1.5	3.0	-	4.0	-
Two-bedroom Average Rent (October) ($)	732	808	958	1,020	-	1,050	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.06	6.28	6.90	6.75	-	6.31	-
Mortgage Rate (5 year) (%)	5.99	6.66	7.07	7.05	-	6.92	-
Annual Employment Level	545,800	561,300	599,100	621,130	3.7	632,130	1.8
Employment Growth (%)	-1.4	2.8	6.7	5.3	-	2.5	-
Unemployment rate (%)	4.5	3.9	3.8	3.9	-	4.1	-
Net Migration [1]	21,584	23,245	17,439	18,000	3.2	16,500	-8.3

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2007 migration data is forecasted

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